

# Economic and Revenue Update

Presented to  
House Finance Committee

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Executive Director

January 20, 2022



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ECONOMIC AND REVENUE FORECAST COUNCIL**



# Summary

- U.S. GDP is expected to grow 5.5% in 2021, will slow as stimulus ends and labor market recovers
- The WA economy is expected to outperform the national economy in both employment and personal income growth for 2022 – 2025
- Revisions to historic WA personal income data suggest stronger-than-expected revenue to personal income relationship
- The forecast of funds subject to the budget outlook is increased by \$898 million for 2021-23 biennium and by \$965 million for the 2023-25 biennium



# Forecast risks

## Upside

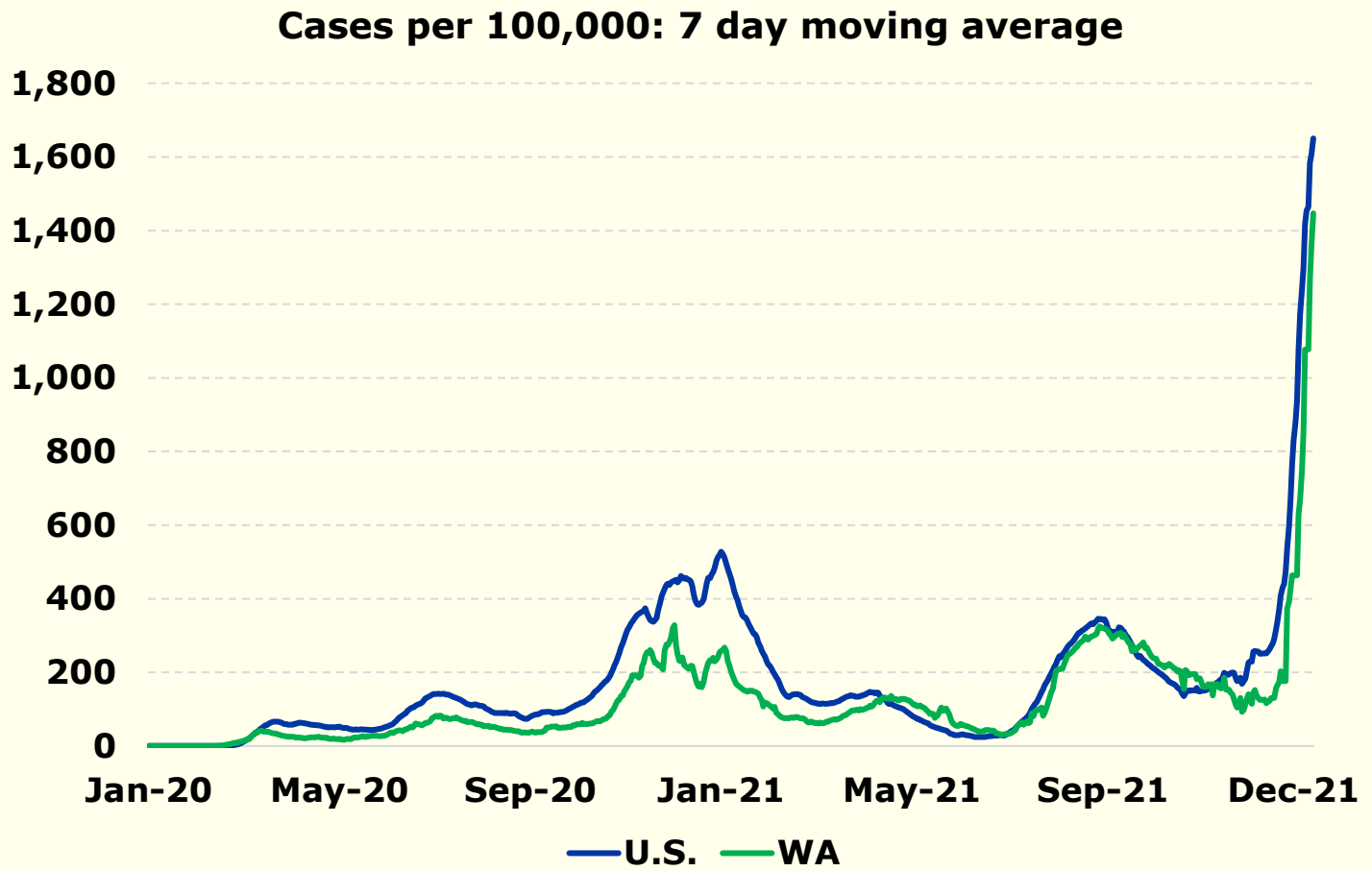
- COVID cases decline rapidly
- The impact of the Infrastructure Investment and Jobs Act is more robust than expected
- Congress could pass additional stimulus legislation

## Downside

- More infectious COVID variants lead to increased cases and hospitalizations, slowing pace of recovery
- Slower supply chain improvement and labor supply growth impair economic recovery



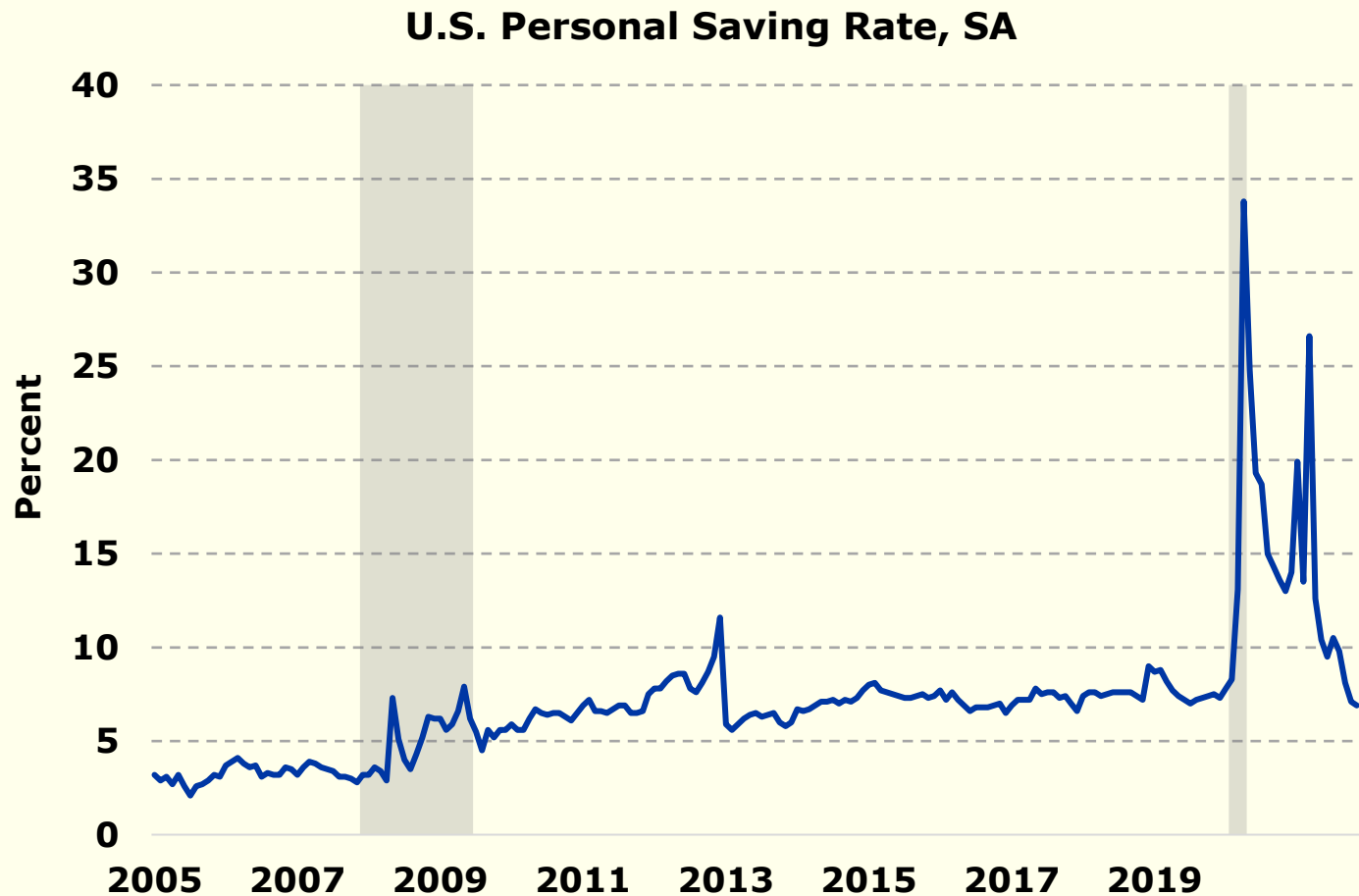
# New COVID case rate well above previous peak although omicron variant appears to be milder





# The saving rate appears to be heading towards more typical levels

The personal saving rate is the percentage of disposable income saved.



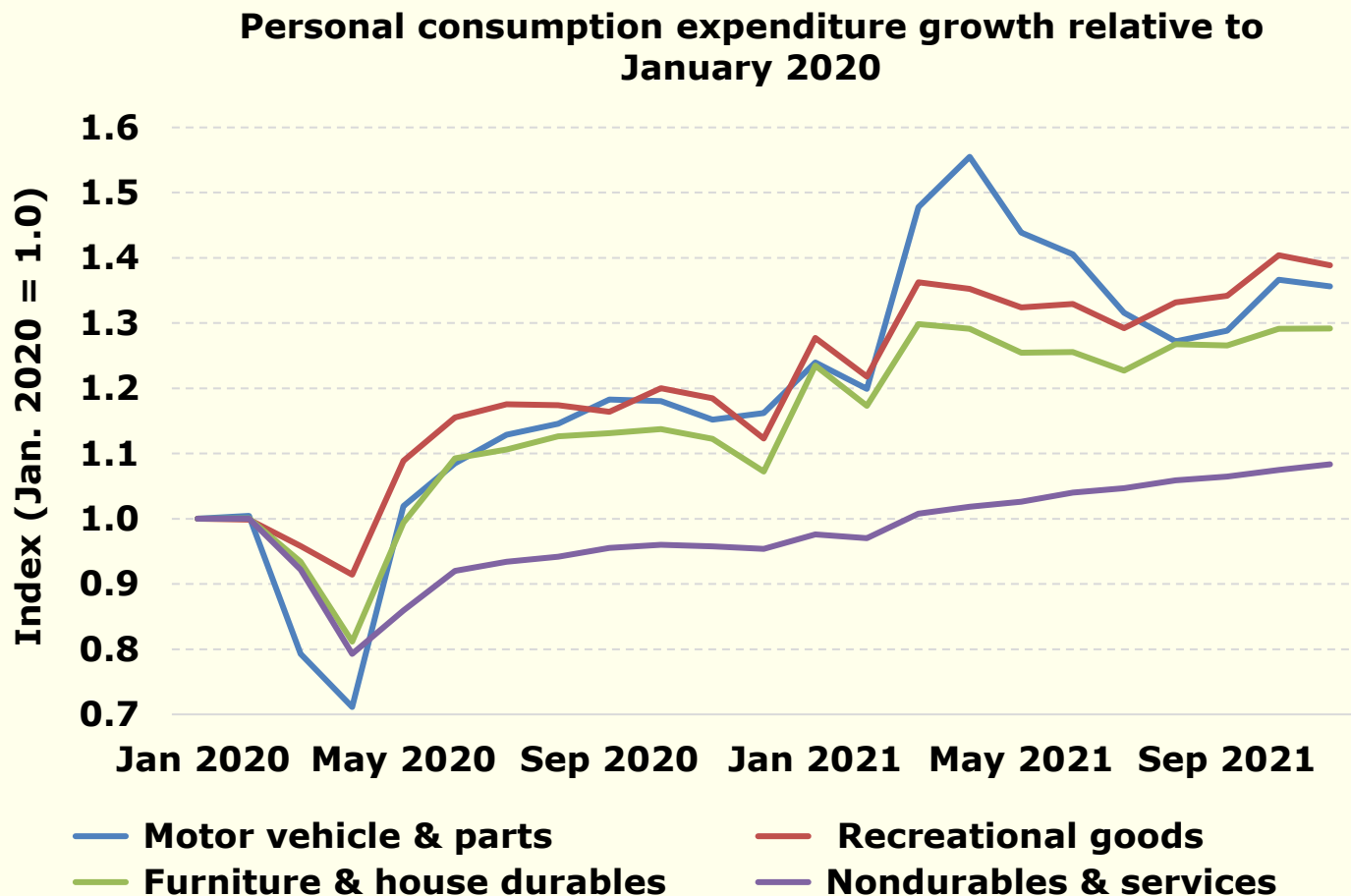
Source: U.S. Bureau of Economic Analysis; data through November 2021

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# Consumer purchases of durable goods remain strong; nondurables, services have increased

"Nondurables & services" includes groceries, clothes, gasoline, household supplies and all household expenditures on services.

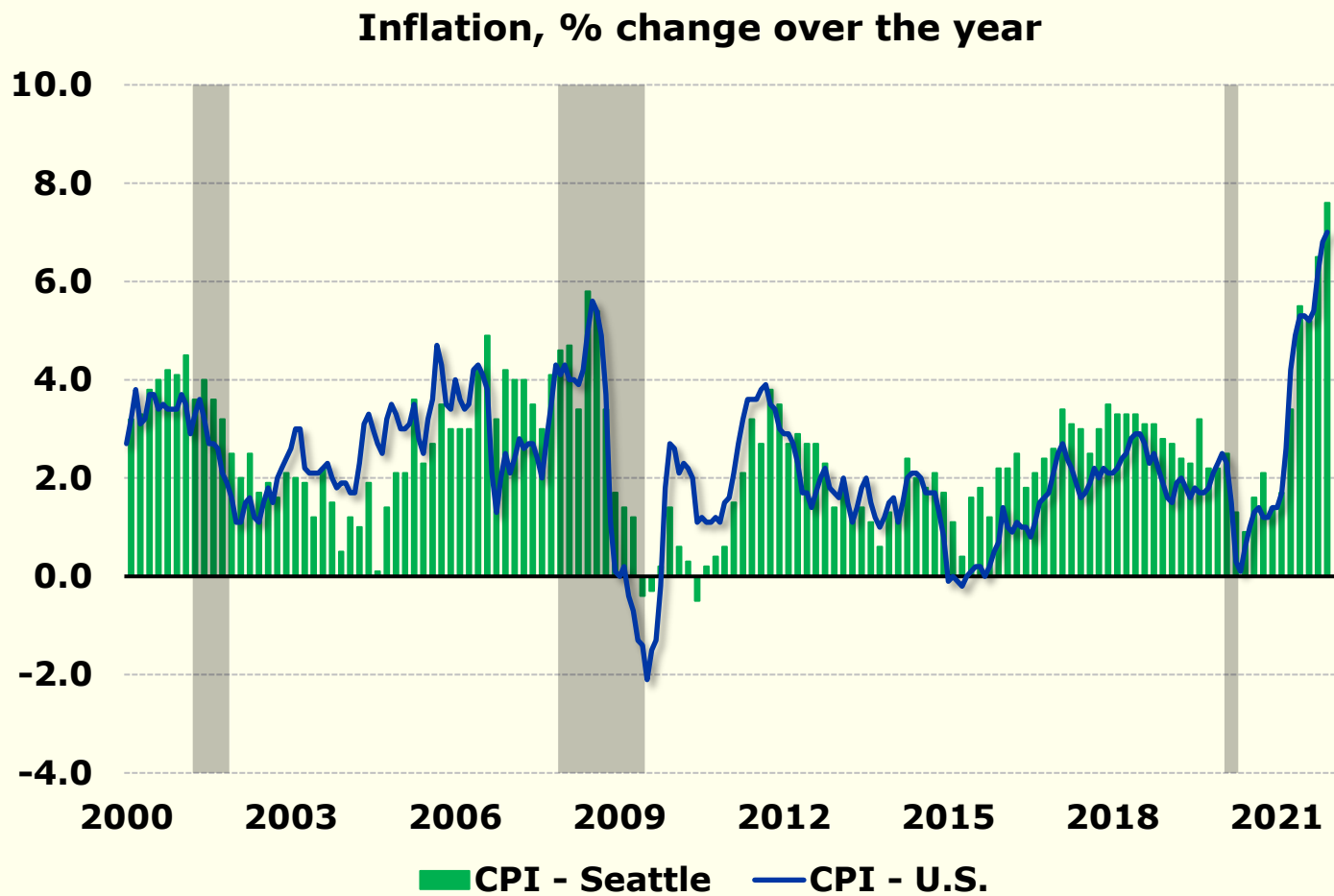


Source: U.S. Bureau of Economic Analysis, data through November 2021

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# In December, prices rose at highest level since June 1982

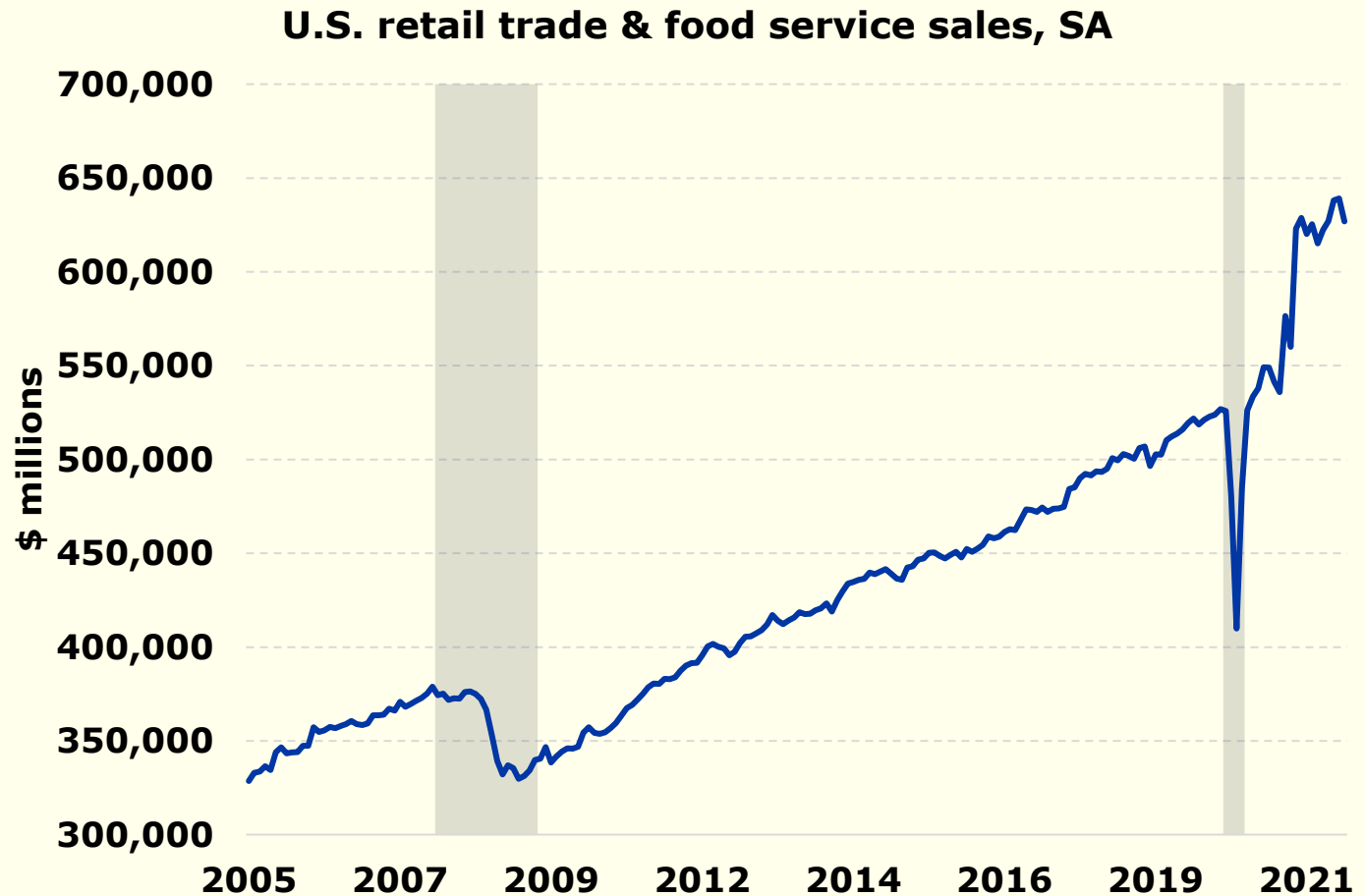


Source: U.S. Bureau of Labor Statistics, data through December 2021

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# U.S. retail trade sales decreased 1.9% in December; first monthly decline since July 2021



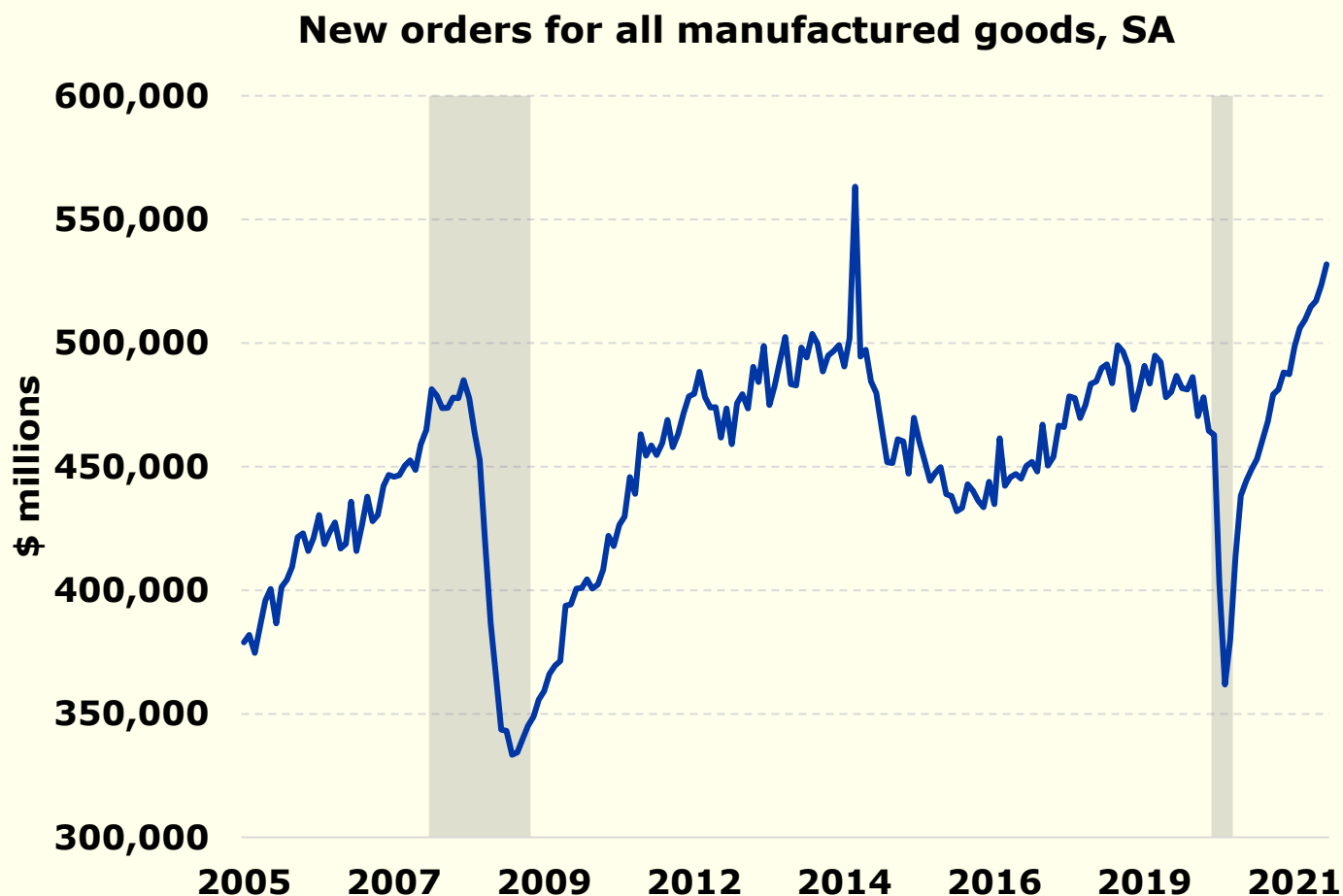
Source: U.S. Census Bureau; data through advanced December 2021

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# New orders for U.S. manufactured goods are more than 15% above pre-pandemic levels



Source: U.S. Census Bureau; data through advance November 2021

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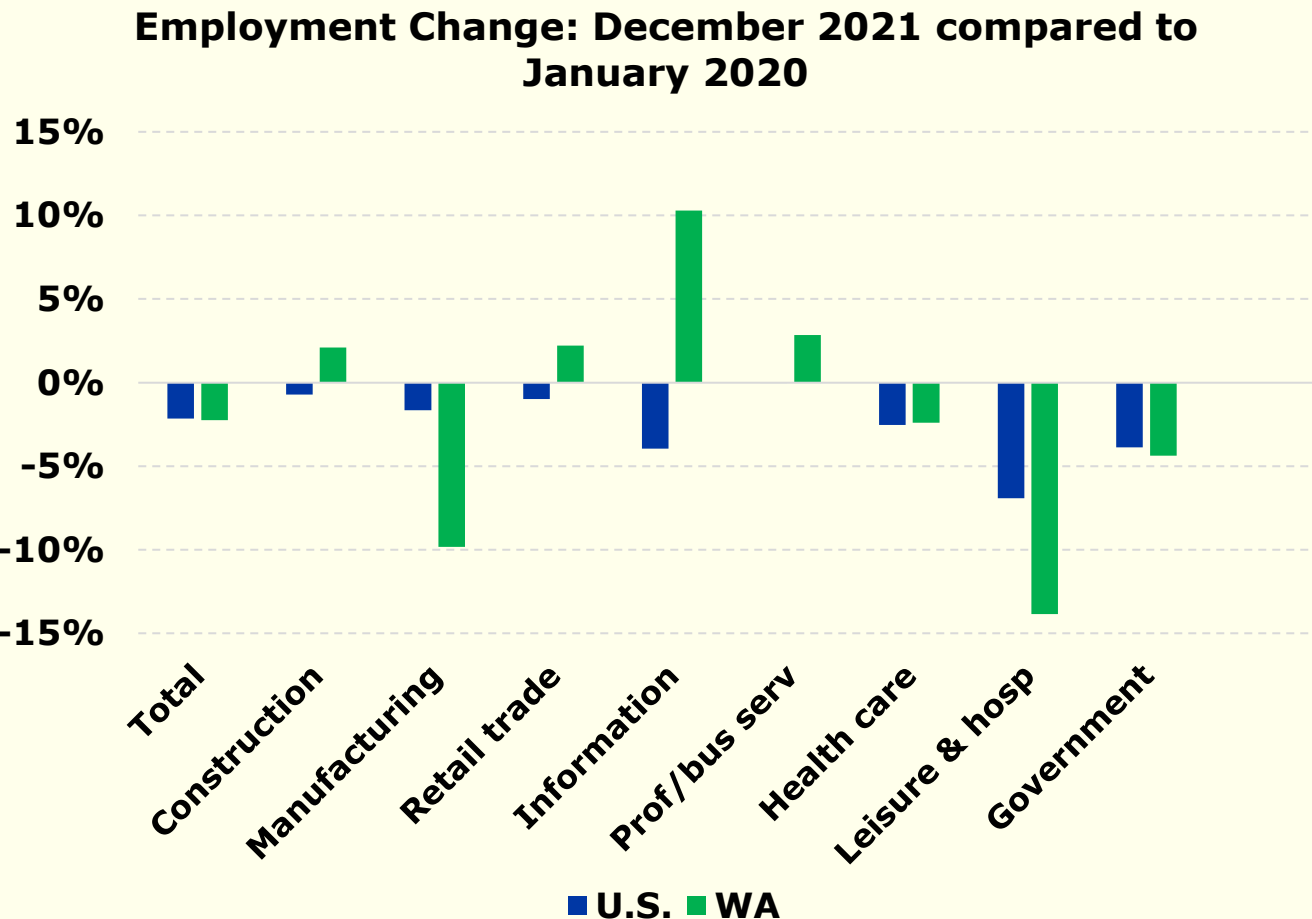


# Recovery of total U.S., WA employment similar; differs across industries

December 2021 employment:

U.S. = 2.2%  
below January 2020

WA = 2.3%  
below January 2020

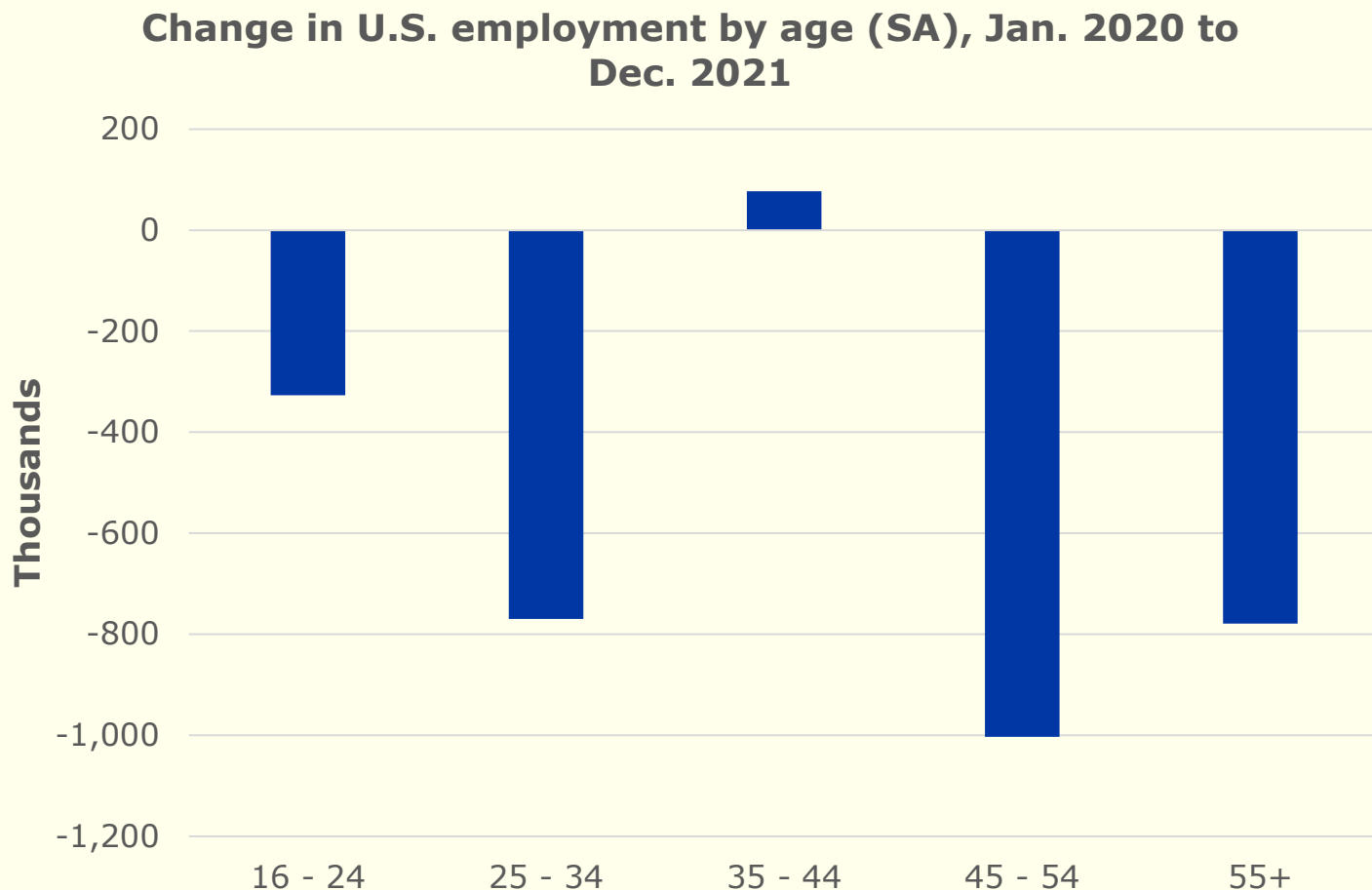


Source: ERFC, U.S. Bureau of Labor Statistics, Employment Security Dept.

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# Employment is below pre-pandemic levels for all age groups except 35-44



Source: U.S. Bureau of Labor Statistics



# COVID-related reasons for not working have declined since January 2021

Reason for not working (age 18 and over)	Jan 20-Feb 1	May 26-Jun 7	Jul 21-Aug 2	Sept 29-Oct 11	Dec 1-Dec 13
Have or caring for someone with coronavirus	5%	2%	2%	4%	3%
Concerned about getting/spreading coronavirus	5%	3%	3%	2%	3%
Laid off or furloughed due to coronavirus	12%	7%	6%	4%	4%
Employer closed due to coronavirus	5%	5%	5%	2%	1%
Did not want to be employed at this time	5%	6%	5%	5%	5%
Caring for children not in school or daycare	6%	8%	7%	5%	5%
No transportation to work	n/a	1%	2%	1%	1%
Caring for elderly person	2%	2%	2%	2%	2%
Sick (not coronavirus) or disabled	6%	7%	7%	7%	8%
Retired	37%	43%	43%	43%	43%
Other reason	17%	18%	20%	17%	18%

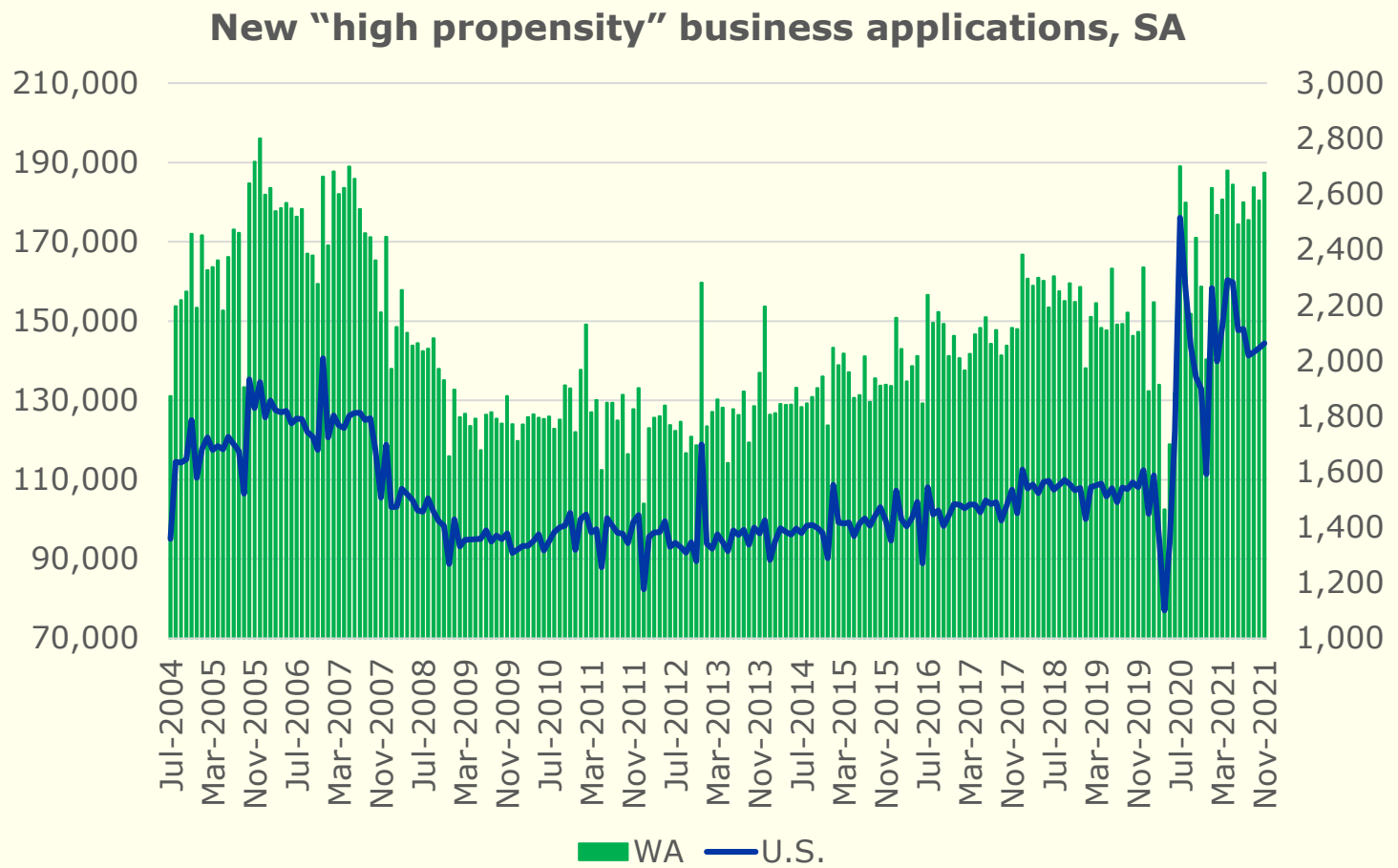
Source: U.S. Census,  
Household Pulse  
Survey

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# Nationally and in WA, new business applications are higher than before the pandemic

“High propensity” business applications are those with a high likelihood of turning into businesses with a payroll based on intention to hire employees and their industry.



Source: U.S. Census Bureau, data through November 2021

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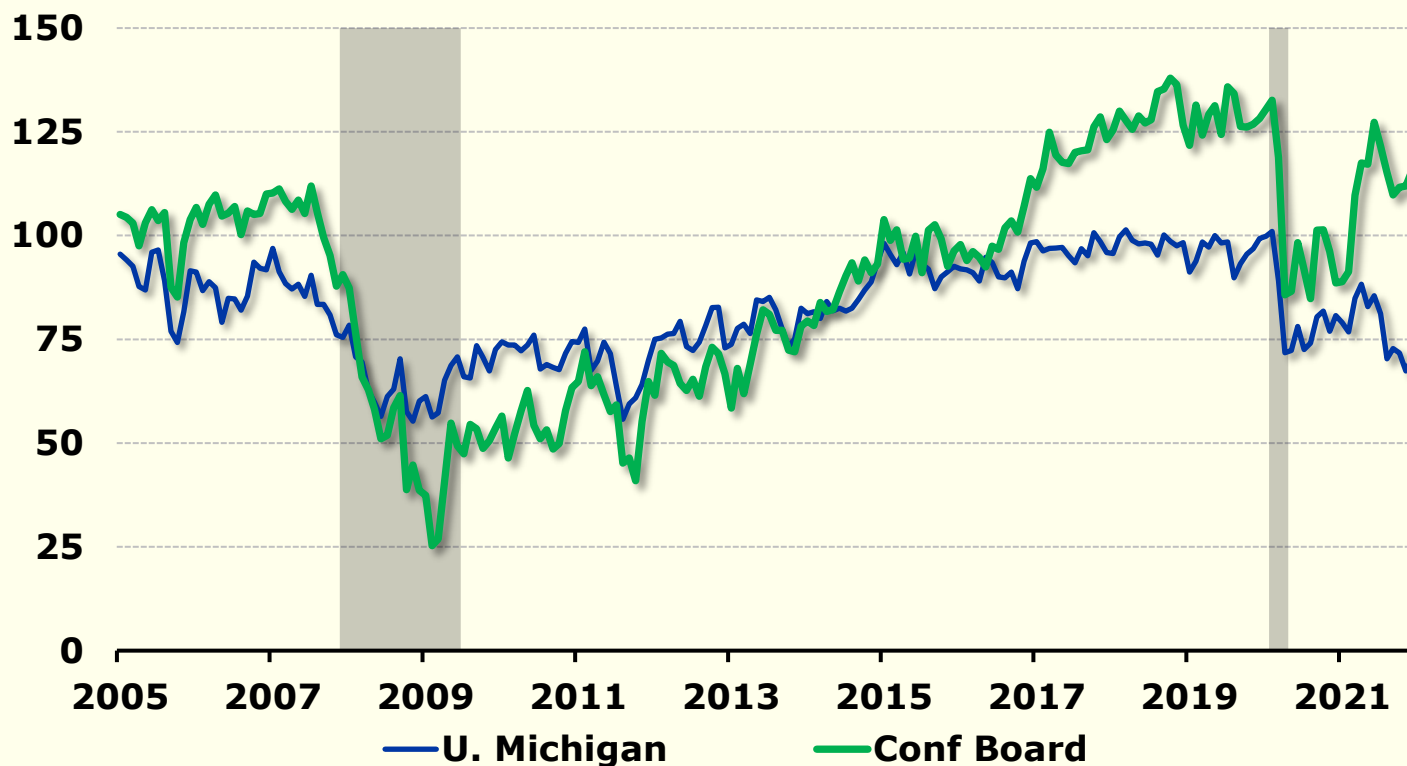


# Consumer confidence has ticked up recently, still down from June 2021 level

## Index

**Mich: 1966Q1 = 100, SA**

**Conf Board: 1985 = 100, SA**

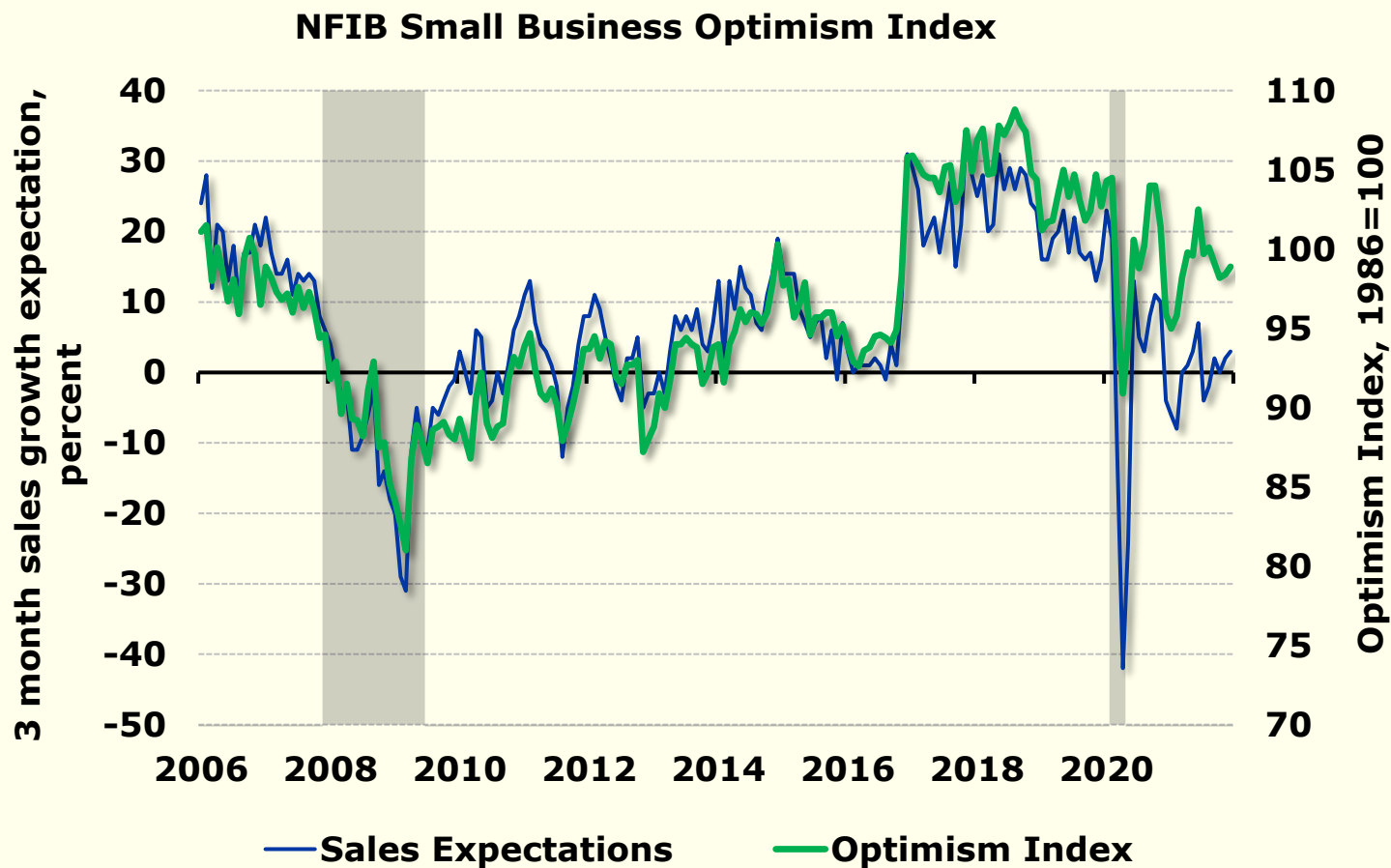


Sources: University of Michigan, Conference Board; data through December 2021

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# Small business optimism, sales expectations have weakened since June



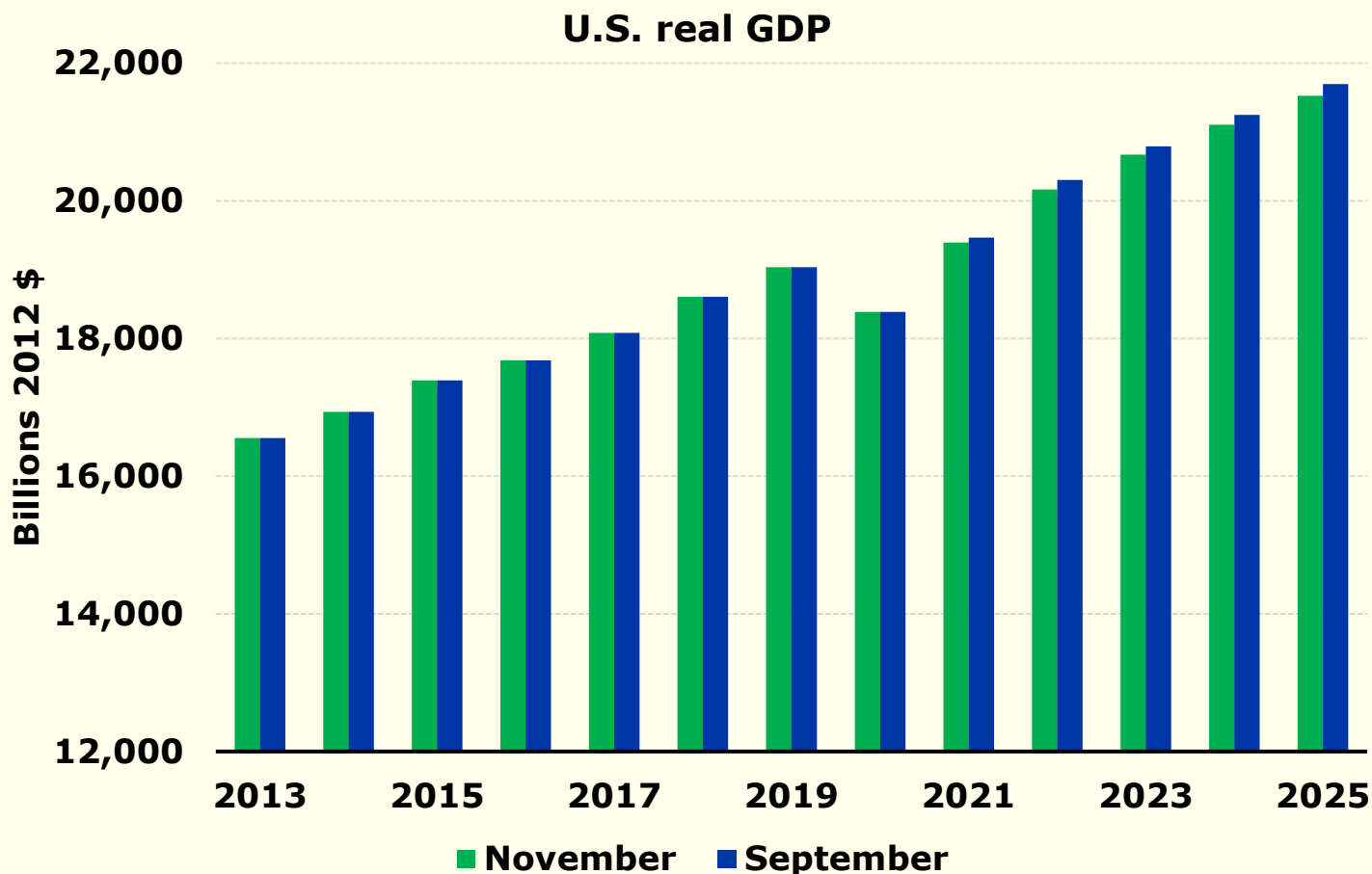
Source: National Federation of Independent Business; data through December 2021

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# GDP is slightly lower compared to the September forecast

GDP will grow 5.5% in 2021, 4.0% in 2022 and 2.5% in 2023



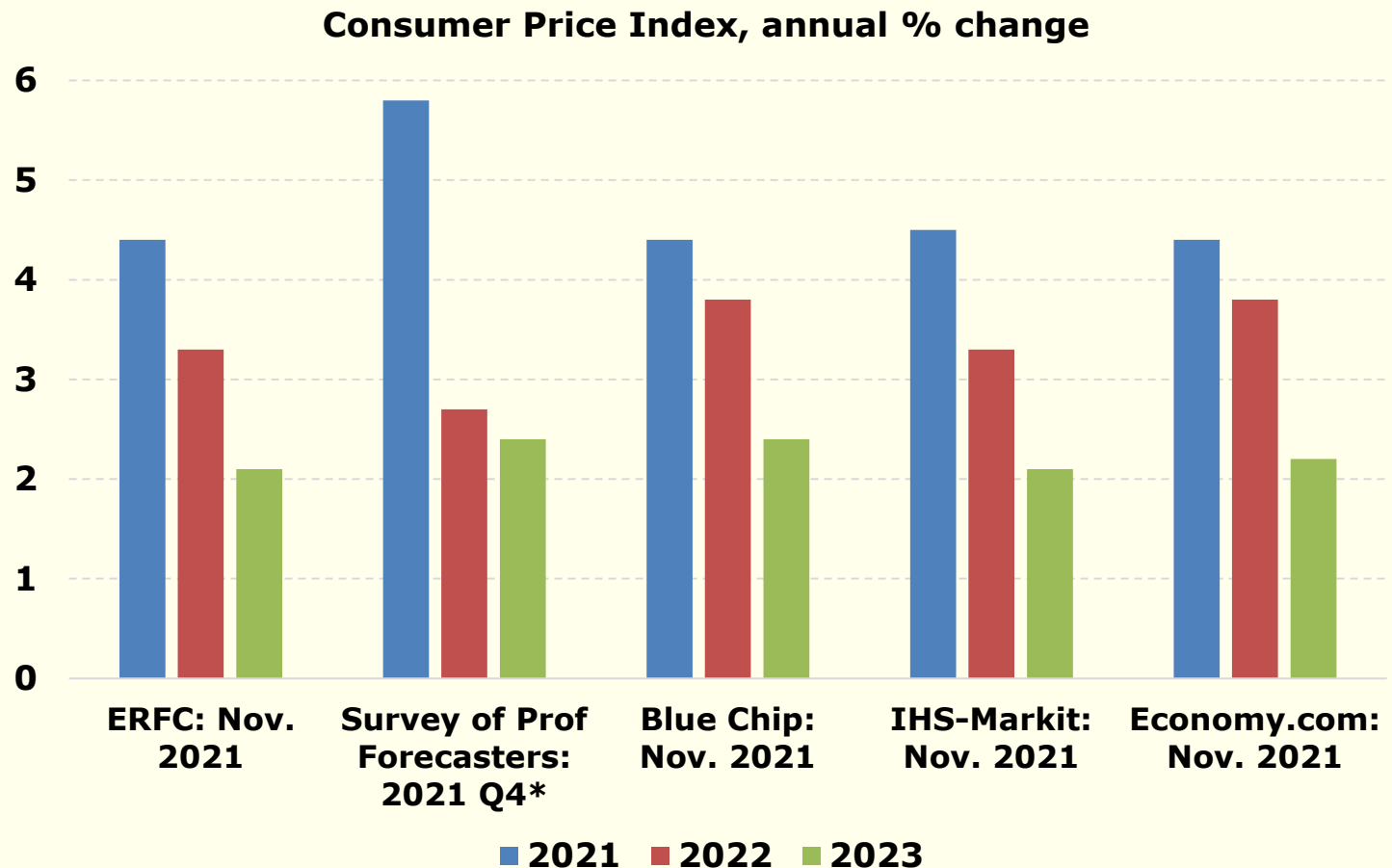
Source: ERFC November 2021 forecast; historical data through 2020

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# Inflation forecast revised up since September; expected to gradually decline



\*Survey of Prof Forecasters: Q4 over Q4 average; all others annual averages

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# Inflation and supply chain issues

## Positives

- Bulk shipping costs have declined since early October

## Negatives

- Consumer confidence surveys cite inflation and COVID concerns
- Small business confidence down due to inflation, supply chain issues, labor shortage
- Port congestion, lack of warehouse capacity, truck driver shortage



# WA personal income is lower due to historical data revisions; growth similar to September forecast

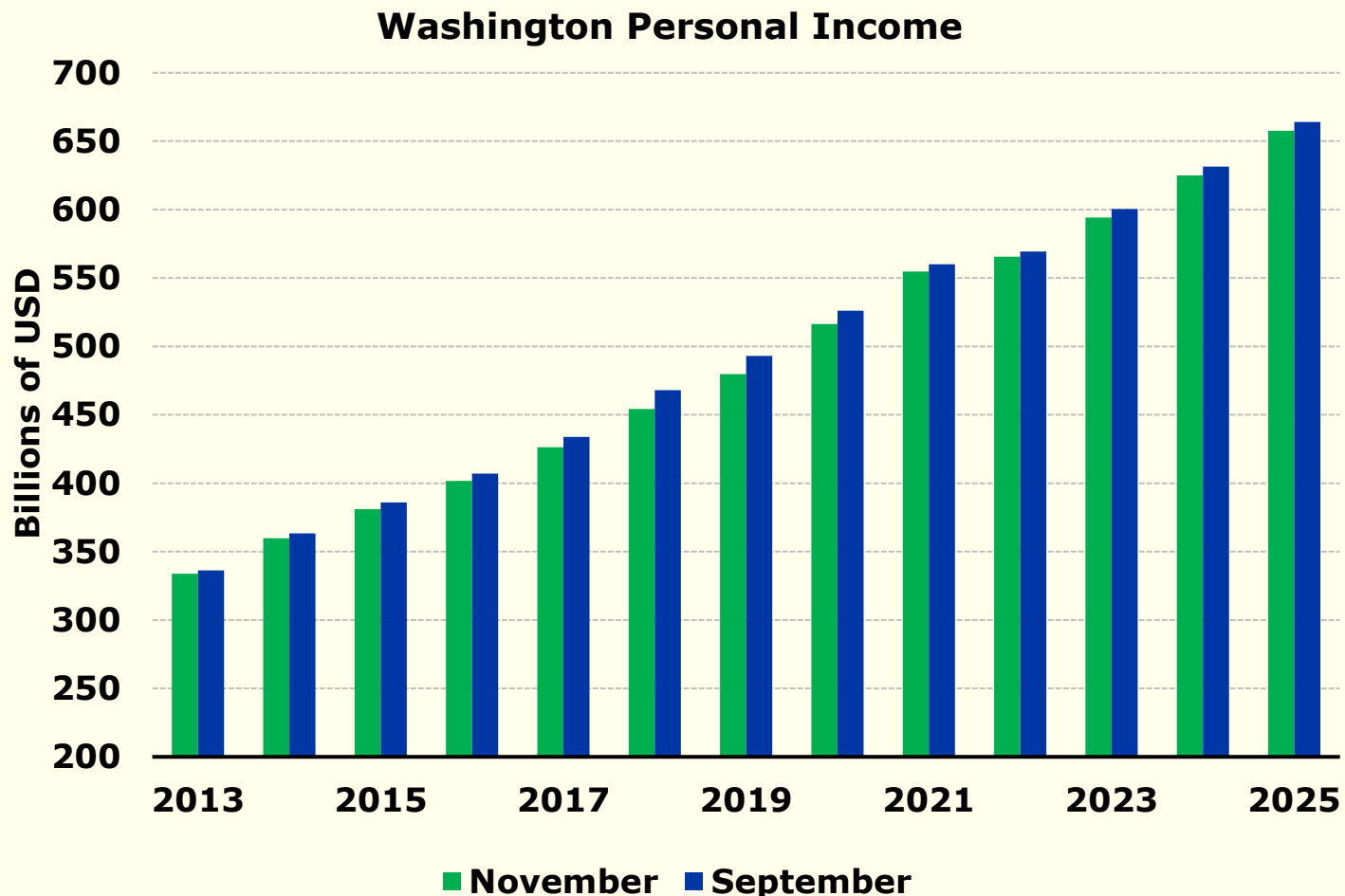
Average  
annual  
personal  
growth, 2022  
to 2025:

U.S. = 4.8%

WA = 5.2%

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Source: ERFC November 2021 forecast; historical data through 2020

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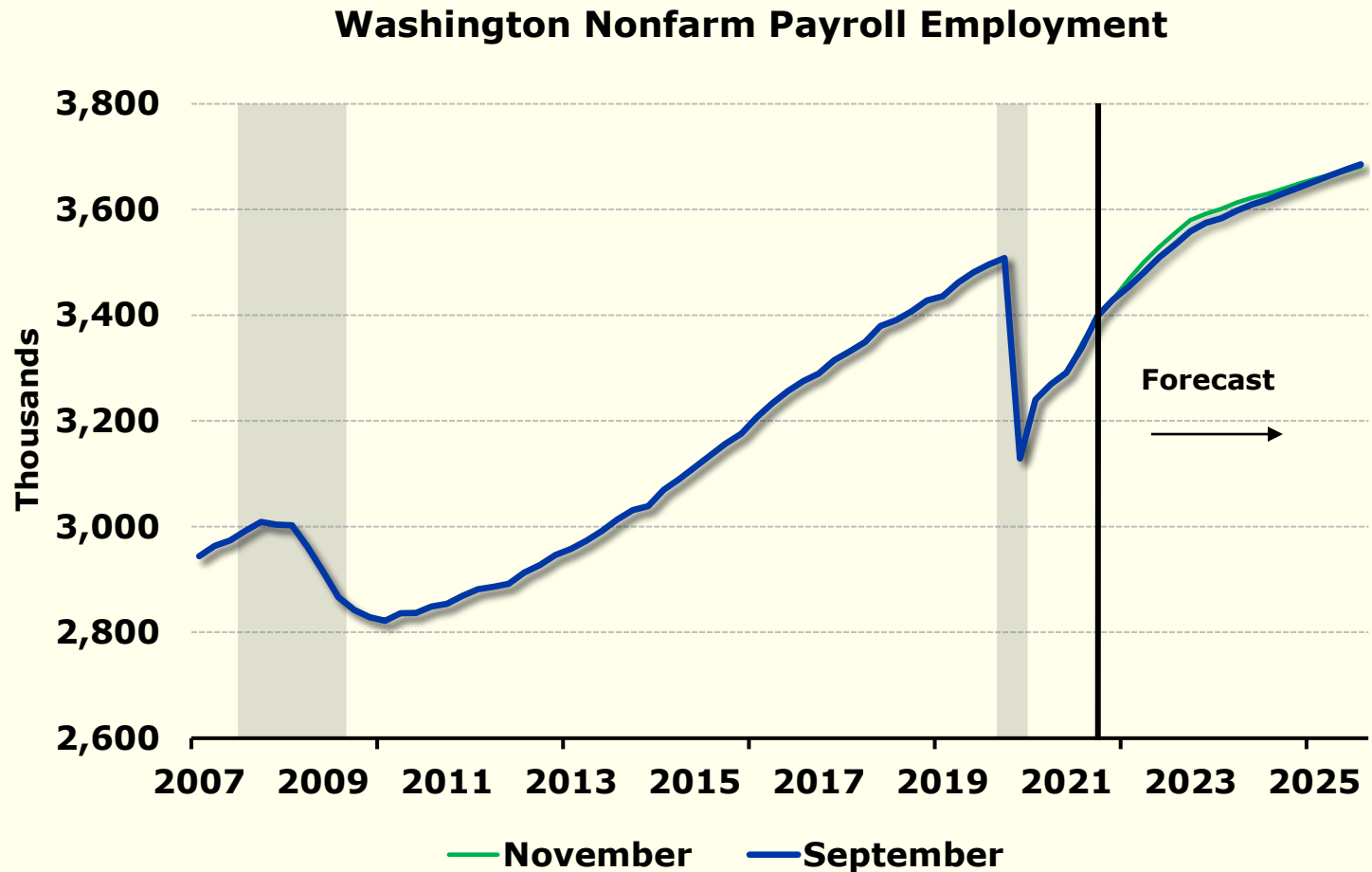


# WA employment forecast is essentially unchanged from September

Average annual employment growth, 2022 to 2025:

U.S. = 1.6%

WA = 2.2%

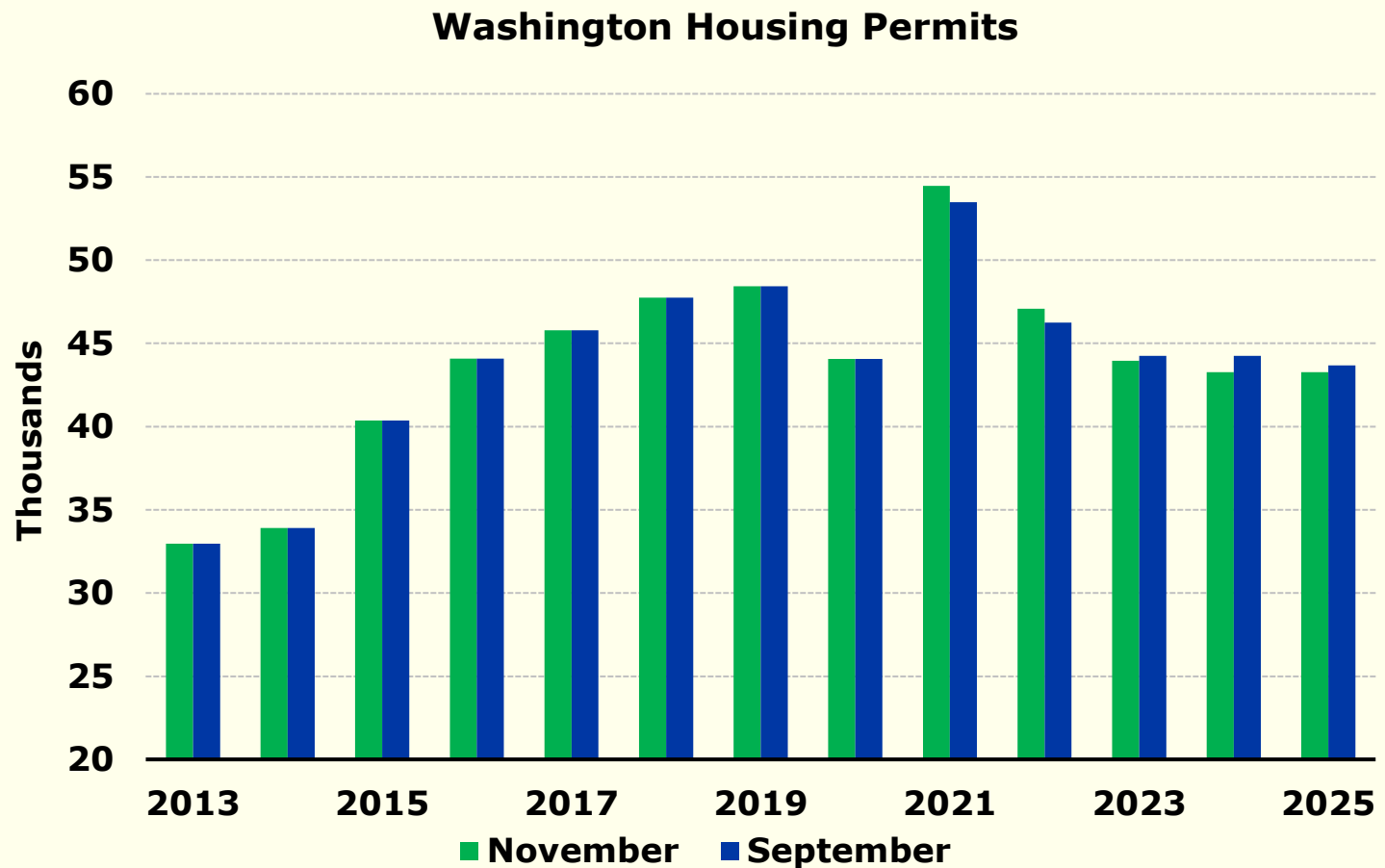


Source: ERFC November 2021 forecast; historical data through Q3 2021

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# WA housing permits are slightly higher in 2021-22, slightly lower in 2023-25 compared to September

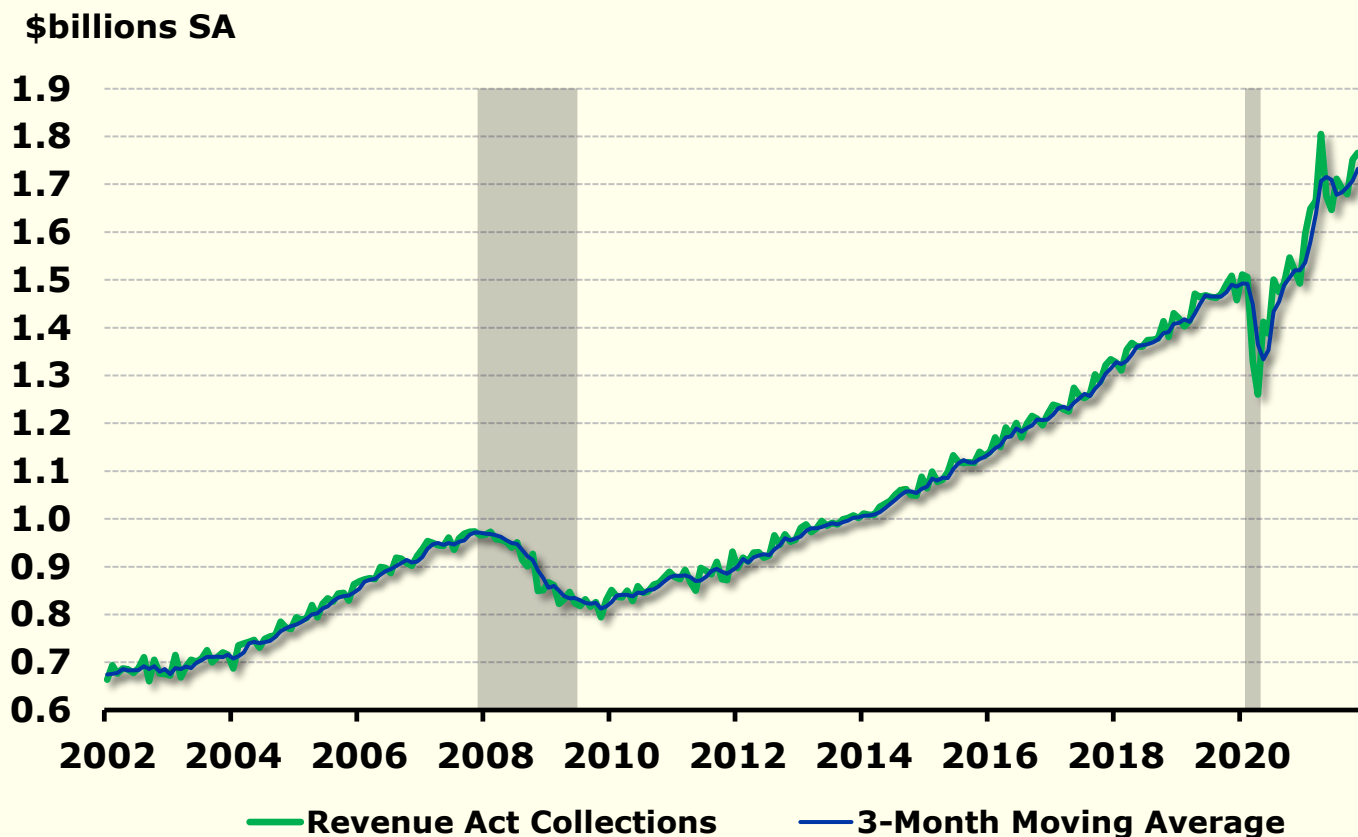


Source: ERFC November 2021 forecast; historical data through 2020

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# Revenue Act collections remain strong; over 17% year over year growth for November activity



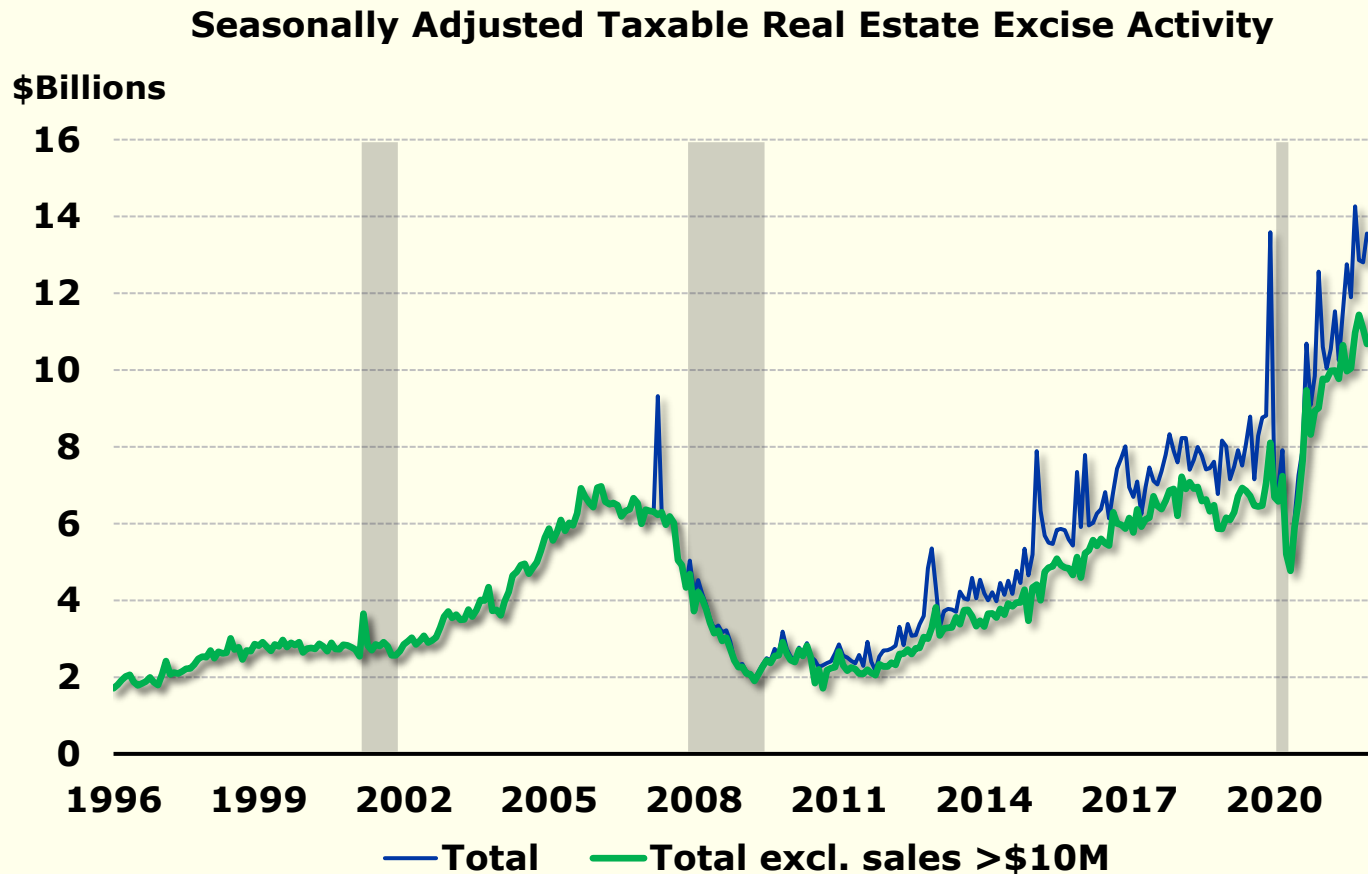
\* Adjusted for large one-time transactions, amnesty payments, reporting frequency change and deferred 2020 payments, current definition of Revenue Act  
Source: DOR and ERFC; monthly data through November 2021 activity

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# Seasonally adjusted taxable REET activity down from record September level but remains high

Large commercial transactions in December totaled \$2.9 B, up from \$1.7 B in November.



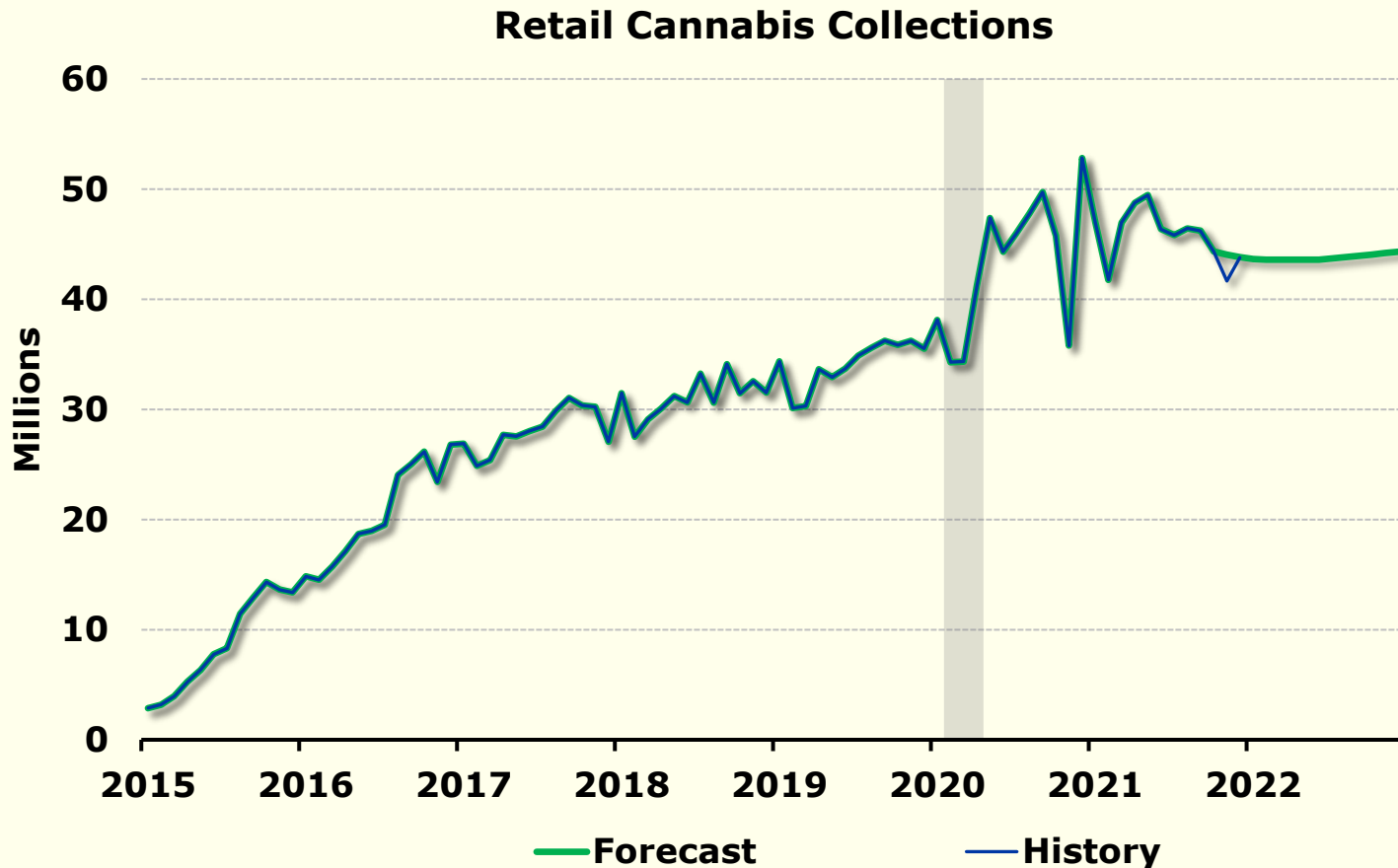
Source: ERFC; Monthly data through December 2021 estimate

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# Cannabis revenues appear to be moderating

Collections came in 0.4% below the September forecast



Source: ERFC November 2021 forecast; historical data through December 2021

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# Conclusion

- U.S. GDP, employment forecasts similar to September; inflation is higher in 2021 - 2025
- WA personal income growth forecast slightly higher than Sept. forecast; employment forecast very similar
- COVID, inflation pose forecast risks
- Total state revenues are expected to grow 13.4% between the 2019-21 and 2021-23 biennia and 6.3% between the 2021-23 and 2023-25 biennia



# Questions



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